DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: KARL KLEIN
DEPUTY ATTORNEY GENERAL

DATE: AUGUST 12, 2011

SUBJECT: INTERMOUNTAIN GAS COMPANY – 2011 ANNUAL PGA FILING, CASE NO. INT-G-11-01

On August 11, 2011, Intermountain Gas Company filed its annual Purchased Gas Cost Adjustment (PGA) Application requesting authority to decrease its annualized revenues by $14.4 million, or an overall decrease of about 5.3%. Application at 2.[1] The Company contends the proposed changes will decrease its customer rates while not affecting the Company's earnings. *Id.* at 2 and 4. The Company asks that the Commission process the Application by Modified Procedure, and that the new rates take effect October 1, 2011. *Id.* at 9.

THE APPLICATION

With this Application, Intermountain Gas seeks to pass-through to each of its customer classes a net change in gas-related costs resulting from: (1) an increase in costs billed to Intermountain by Northwest Pipeline GP ("Northwest" or "Northwest Pipeline"); (2) a decrease in costs from Intermountain's "upstream" pipeline suppliers and its storage facilities; (3) a decrease in Intermountain's weighted average cost of gas ("WACOG"); (4) an updated customer allocation of gas-related costs pursuant to the Company's Purchased Gas Cost Adjustment provision; (5) the inclusion of temporary surcharges and credits for one year relating to natural gas purchases and interstate transportation costs from Intermountain's deferred gas cost accounts; and (6) benefits included in Intermountain's firm transportation and storage costs

[1] The PGA mechanism is used to adjust rates to reflect annual changes in Intermountain's costs for the purchase of natural gas from suppliers – including transportation, storage, and other related costs. *See* Order No. 26019.

resulting from Intermountain's management of its storage and firm capacity rights on various pipeline systems. Application at 3-4.

Intermountain Gas proposes decreasing the WACOG from the currently approved \$0.49211 per therm to \$0.45342 per therm. The Application maintains that "[c]ontinued weakness in the regional and national economies has put downward pressure on new customer growth and weather adjusted demand for natural gas. At the same time, natural gas supplies are ample and U.S. dry gas production is at an all time high. Robust supply coupled with flat demand has kept the near term prices for natural gas relatively low." *Id.* at 5.

Pursuant to Order No. 32077, Intermountain included temporary surcharges and credits in its October 1, 2010 prices for the principal reason of collecting or passing back to its customers deferred gas cost charges and benefits. Intermountain seeks with this Application to eliminate the temporary surcharges and credits included in its current prices during the past 12 months. Exhibit No. 4, line 26 reflects the elimination of these temporary surcharges and credits. The proposed changes would result in an overall price decrease to Intermountain's customers. Application at 4 and 6.

The Company asserts that the proposed WACOG includes the benefits resulting from Intermountain's storage of significant amounts of natural gas "procured during the summer season when prices are typically lower than during the winter, [making] the cost of Intermountain's storage gas normally less than what could be obtained on the open market in winter months." Additionally, and in an effort to further stabilize prices paid by customers during the upcoming winter period, Intermountain has entered into various fixed price agreements to lock-in the price for significant portions of its underground storage and other winter "flowing" supplies. *Id.* at 5.

The Company proposes to allocate deferred gas costs from its Account No. 186 balance to its customers through temporary price adjustments to be effective during the 12-month period ending September 30, 2012, as follows: (1) fixed gas costs credit of \$5.9 million attributable to the collection of interstate pipeline capacity costs, the true-up of expense issues previously ruled on by the Commission, and mitigating capacity release credits generated from the incremental release of Intermountain's pipeline capacity; (2) deferred gas cost amounts of \$12.2 million attributable to variable gas costs since October 1, 2010; and (3) deferred gas costs related to lost and unaccounted-for gas which results in a net per-therm decrease to both sales and transportation customers. *Id.* at 6-7.

Intermountain states that a straight cents-per-therm price decrease was not utilized for the LV-1 tariff. There are no fixed costs recovered in the tail block of the LV-1 tariff. The proposed changes in the WACOG, and variable deferred credits (outlined in Exhibit 9) are applied to all three blocks of the LV-1 tariff, but adjustments relating to fixed costs are applied only to the first two blocks of the LV-1 tariff. Each block of the proposed LV-1, T-3, T-4 and T-5 tariffs include a uniform cents-per-therm decrease to adjust for lost and unaccounted-for gas. *Id.* at 7.

Intermountain asserts that customers have been notified regarding Intermountain's Application through a customer notice and press release. *Id.* at 8. Intermountain states that the proposed overall price changes reflect a just, fair, and equitable pass-through of changes in gas-related costs to Intermountain's customers. *Id.* Finally, the Company requests that this matter be handled under Modified Procedure pursuant to Rules 201-204 of the Commission's Rules of Procedure and that its rates become effective on October 1, 2011. *Id.* at 9.

STAFF RECOMMENDATION

Staff recommends that the case be processed by Modified Procedure, with comments due by September 21, 2011.

COMMISSION DECISION

Does the Commission wish to process this case under Modified Procedure, with comments due by September 21, 2011?

Karl Klein
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